

THE Mentor

News from the State Retirement and Pension System of Maryland



STATE RETIREMENT
and PENSION SYSTEM
of MARYLAND

SPECIAL EDITION

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Special Edition
Pension
Enhancement

Who is eligible?

ACTIVE MEMBERS AS OF
JUNE 30, 2006 of the

Employees' and Teachers' Pension System or the bifurcated plan of the Employees' and Teachers' Retirement System - Plan C who meet one of the following criteria:

1. State employees (automatic participation),
2. Teacher members of participating Boards of Education, Libraries, and Community Colleges (automatic participation), and
3. Participating Governmental Unit employees **only if their employer elects to join the Alternate Contributory Pension Selection Plan** between July 1, 2006 and June 30, 2007.

WHO IS NOT ELIGIBLE?

Excluded from the Alternate Contributory Pension Selection Plan are:

1. Employees of withdrawn municipalities,
2. Members who transferred from the Employees' or Teachers' Retirement System into the Pension System after April 1, 1998, and
3. Members who retire prior to July 1, 2006

New legislation enhances benefit for eligible teachers and employees

GOVERNOR ROBERT L. EHRLICH JR. signed new legislation on April 25, 2006, enhancing the pension benefit of eligible teachers and employees.

This legislation, enacted by the 2006 Maryland General Assembly, creates the Alternate Contributory Pension Selection Plan, which provides a retroactive enhanced benefit multiplier for service credit back to July 1, 1998 for eligible members.



Eligible teachers and employees who retire on or after July 1, 2006 will receive the enhanced benefit. Members who retire before that date are not impacted by this legislation.

What is the Alternate Contributory Pension Selection Plan formula?

THE NEW PENSION LAW increases the benefit multiplier for eligible members to 1.8% for service earned on and after July 1, 1998. The benefit formula will remain unchanged for service earned prior to that date.

For Contributory and Non-Contributory Pension System members eligible for the Alternate Contributory Pension benefit, the retirement allowance will now be calculated as follows:

Average Final Compensation x .012 x Years of Service to June 30, 1998*
Plus

Average Final Compensation x .018 x Years of Service after June 30, 1998
(See the benefit worksheet on page 3 for a sample calculation.)

* The service credit earned as of June 30, 1998, is multiplied by 1.2% unless the former non-contributory formula (0.8%/1.5%) produces a larger benefit. For most members, the 1.2% multiplier will produce a greater benefit.

Frequently asked questions

Q. If I retire July 1, 2006, will I receive the pension enhancements?

A. Yes. If you are an active member in June 2006 and retire July 1, 2006, you will receive the pension enhancement under the Alternate Contributory Pension Selection Plan.

As a July 1, 2006 retiree, the Cost-of-Living Adjustment (COLA) will be applied starting with the July 2007 retirement check since you will have been retired one full year as of July 2007.

Q. I am a retired member of the Pension System. Do I receive any benefit from the pension enhancement legislation?

A. No. This legislation only impacts eligible **active members** as of June 30, 2006 who retire on or after July 1, 2006.

Q. I am an active member of the Employees' Pension System employed by a participating governmental unit (not a state employer). Do I receive any benefit from the pension enhancement legislation?

A. You will be eligible for the enhanced pension benefit if and when your **employer** elects to participate in the Alternate Contributory Pension Selection Plan. Employers have from July 1, 2006 to June 30, 2007 to make this election. Members who retire prior to July 1, 2006 are not eligible for the enhanced benefit. This answer also applies for bifurcated members of the Employees' Retirement System - Plan C.

Q. I'm on an approved leave of absence. Will I be a member of the Alternate Contributory Pension Selection Plan?

A. Yes, so long as you don't terminate service from your leave before July 1, 2006.

Q. Is my unused sick leave credit at retirement calculated at 1.8%?

A. For Pension System members eligible for the Alternate Contributory Pension Selection Plan benefit, unused sick leave will receive the 1.8% multiplier for retirements July 1, 2006 or later. For bifurcated members of the Retirement System eligible for the Alternate Contributory Pension Selection Plan benefit, unused sick leave is applied to the Retirement System and Pension System components of your benefit in the same ratio as the creditable service in your benefit calculation. The Pension System component would be at the 1.8% multiplier for retirement July 1, 2006 or later.

Q. I purchased previous full cost service and plan to retire after July 1, 2006. Do I owe additional money to receive the Alternate Contributory Pension Selection Plan benefit?

A. Yes. You will be billed for the additional amount.

Q. I am a member of the Retirement System. Does the Alternate Contributory Pension Selection Plan apply to me?

A. Only bifurcated members of the Retirement System are affected by this plan. All other members of the Retirement System have no changes to their benefit formula.



What is the cost to members for the enhanced benefit?

IN EXCHANGE FOR THE ENHANCED PENSION BENEFIT, members will be required to make increased employee contributions to the system. These contributions will automatically be deducted from each eligible member's payroll check beginning July 1, 2006 (for teachers and state employees) or at the time his or her employer elects to participate in the Alternate Contributory Pension Selection Plan (employees of participating governmental units are required to make the new contribution rate effective July 1, 2006).

The employee contribution rate for eligible members will increase over three years. Contributions will be deducted as follows:

Starting July 1, 2006:
3% of annual salary

Starting July 1, 2007:
4% of annual salary

Starting July 1, 2008:
5% of annual salary

Most employers participate in the Employer Pick-up Program, which means your employee contributions reduce the taxable portion of your salary for federal tax purposes.

Important: The following benefit formula applies to all state employees and teachers who are members of the Employees' and Teachers' Contributory Pension System. Employee members of a participating governmental unit will receive this benefit formula if their employer elects participation in the Alternate Contributory Pension Selection Plan.

This formula would not apply to members who transferred from the Retirement System to the Pension System after April 1, 1998.

This formula would apply to someone retiring July 1, 2006 or later.

Employees' and Teachers' Alternate Contributory Pension Selection Plan

BENEFIT WORKSHEET

Key term:

Average Final Compensation (AFC) = Three highest consecutive years of earnings \div 3

Note: If enrolled 7/1/98 or after, use (B) only for formula.

Service earned as of 6/30/98 will be applied to (A) as shown below unless the Non-Contributory Employees' and Teachers' Pension System formula is greater.



SERVICE RETIREMENT FORMULA

(A) $\text{AFC} \times .012 \times \text{Years of Service to 6/30/98}$

_____ $\times .012 \times$ _____

PLUS

(B) $\text{AFC} \times .018 \times \text{Years of Service after 6/30/98}$

_____ $\times .018 \times$ _____

DIVIDED BY 12 EQUALS

Monthly Basic Allowance \$ _____

Eligibility Requirements for Normal Service Retirement are:

- at least 30 years of eligibility service; or
- age 62 with at least 5 years of eligibility service, age 63 with 4 years, age 64 with 3 years, age 65 or older with 2 years.



A benefit worksheet for bifurcated members of the Employees' Retirement System-Plan C is available on the State Retirement Agency Web site.

Comparison of Annual Basic Allowance Benefit under the Non-Contributory Pension System, Contributory Pension System and Alternate Contributory Pension Selection Plan

Current Years of Service: 30 years (retiring July 1, 2006)

Average Final Compensation	Non-Contributory Pension System	Contributory Pension System	Alternate Contributory Pension Selection Plan
\$30,000	\$7,200	\$11,280	\$12,240
\$50,000	\$12,777	\$18,800	\$20,400
\$70,000	\$21,777	\$26,320	\$28,560

NOTE: Using the examples above, the Alternate Contributory Pension Selection provides a replacement ratio of 40.8% of average final compensation while the Contributory Pension System would have a replacement ratio of 37.6% and the Non-Contributory Pension System would have a replacement ratio of 24% to 31.1%.

Current Years of Service: 15 years as of July 1, 2006 (+ 15 years to full retirement)

Average Final Compensation	Non-Contributory Pension System	Contributory Pension System	Alternate Contributory Pension Selection Plan
\$30,000	\$7,200	\$12,180	\$14,940
\$50,000	\$12,000	\$20,300	\$24,900
\$70,000	\$16,800	\$28,420	\$34,860

NOTE: Using the examples above, the Alternate Contributory Pension Selection provides a replacement ratio of 49.8% of average final compensation while the Contributory Pension System would have a replacement ratio of 40.6% and the Non-Contributory Pension System would have a replacement ratio of 24%.

More information is available online

For more information on new retirement legislation, including an online estimator, visit the State Retirement Agency's Internet Web site at www.sra.state.md.us.



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